

Notes and Brief Reports

Private Pension Plan Terminations*

The provisions of most private pension plans permit employers to terminate the plan. Use of this power can obviously frustrate the benefit expectations of employees. Because of the interest expressed in Congress and elsewhere¹ in the extent and effect of pension plan terminations, a study was made of the terminations reported to the Office of Labor-Management and Welfare-Pension Reports of the Department of Labor for a period of approximately 10 months.

This study, which is reported in the following pages, indicates that (1) relatively few private pension plans, affecting only a small proportion of all persons covered by pension plans, are terminated; (2) most members of plans terminated because of mergers have their retirement protection continued; (3) some members, including both retired and nonretired persons, may be deprived of accrued credits or benefit rights, especially when the plan is terminated for reasons other than merger; and (4) assets of most terminated plans whose members do not continue to have retirement protection are usually distributed to plan members, but these assets in some instances may be insufficient to meet accrued liabilities.

SOURCE OF DATA

The Welfare and Pension Plans Disclosure Act requires the administrator of an employee welfare or pension benefit plan covering 25 or more par-

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¹ See *Amendments to Welfare-Pension Plans Disclosure Act, Hearings Before the Committee on Education and Labor, House of Representatives* (87th Cong., 1st sess.), 1961, pages 405, 425-429; *Retirement Income of the Aging, Hearings Before the Special Committee on Aging, United States Senate* (87th Cong., 1st sess.), 1961, pages 80-81, 84; United States Senate, Special Committee on Aging, *Developments in Aging 1959 to 1963* (S. Rept. 8, 88th Cong., 1st sess.), 1963, pages 84-85; Merton Bernstein, "Employee Pension Rights When Plants Shut Down: Problems and Some Proposals," *Harvard Law Review*, March 1963, pages 952-981; and J. H. Livingston, "Lee Rubber Stops Pensions of White-Collars" and "Lee Rubber and the Social Ethic," *The Washington Post*, February 20 and 22, 1963.

ticipants (with some exceptions) to file with the Department of Labor two copies of a description of the plan (Form D-1) and two copies of an annual financial report (Form D-2). The Office of Labor-Management and Welfare-Pension Reports has made available the records of all pension plans (including deferred profit-sharing plans) that became inactive in the 10-month period September 1961-June 1962. The Forms D-1 and the accompanying documents were examined to determine which plans were terminated (that is, discontinued) and which became inactive because the records were erroneously filed or for other reasons. One hundred sixty-eight plans were judged to have been terminated; some data were available for 137 plans on the membership, the reason for termination, and whether retirement protection for the membership was continued. The Forms D-2 and the accompanying documents for some of these plans yielded data on the amount and the disposition of the plan's assets at the time of termination.

REASONS FOR TERMINATION

Table 1 summarizes the information on the 137 terminated plans for which data were available. These plans had a total membership of approximately 77,000, including both retired and non-retired members. (Seven plans did not report membership figures.) Since the Office of Labor-Management and Welfare-Pension Reports had on file about 29,000 active pension plans in July 1961,² the proportion of terminated plans is extremely small. And since it has been estimated that the private pension plans had 22.6 million members and 1.9 million beneficiaries at the end of 1961,³ the proportion of persons covered by terminated plans is also small.

As indicated in table 1, retirement protection was continued for the members (approximately 70,000) of 80 terminated plans; that is, the members were transferred to other plans and continued to accrue pension rights from these plans. Retirement protection was discontinued for the 6,700

² U.S. Department of Labor, Bureau of Labor Standards, *Characteristics of 144,700 Welfare and Pension Benefit Plans*, January 1962.

³ Alfred M. Skolnik, "Growth of Employee-Benefit Plans, 1954-61," *Social Security Bulletin*, April 1963, page 12.

Table 1.—Number of terminated pension plans, by reason for termination and continuation of members' protection, and by membership

Reason for termination	Total plans		Plans that reported total membership only		Plans that reported both retired and nonretired membership			
	Number	Member-ship	Number	Member-ship	Number	Member-ship	Retired	Non-retired
Total.....	1 137	77,266	24	17,083	106	60,183	2,891	57,292
Total protection continued.....	² 80	70,017	14	14,529	65	55,488	2,695	52,793
Total protection discontinued.....	³ 51	6,691	10	2,554	37	4,137	173	3,964
Total unknown.....	⁴ 6	558	0	0	4	558	23	535
Merger.....	61	63,015	12	14,069	49	48,946	2,089	46,857
Company merger.....	50	17,164	11	4,069	39	13,095	1,014	12,081
Protection continued.....	50	17,164	11	4,069	39	13,095	1,014	12,081
Protection discontinued.....	0	0	0	0	0	0	0	0
Plans merged within company.....	11	45,851	1	10,000	10	35,851	1,075	34,776
Protection continued.....	11	45,851	1	10,000	10	35,851	1,075	34,776
Protection discontinued.....	0	0	0	0	0	0	0	0
Sale of company.....	15	2,380	5	1,577	10	803	22	781
Protection continued.....	2	107	0	0	2	107	1	106
Protection discontinued.....	13	2,273	5	1,577	8	696	21	675
Company disbanded.....	¹ 10	495	2	131	6	364	58	306
Protection continued.....	0	0	0	0	0	0	0	0
Protection discontinued.....	¹ 10	495	2	131	6	364	58	306
Unilateral company action.....	⁵ 41	9,198	5	1,306	33	7,892	680	7,212
Protection continued.....	13	5,559	2	469	11	5,099	586	4,513
Protection discontinued.....	² 26	3,639	3	846	22	2,793	94	2,699
Unknown.....	² 2							
Company action, approved by plan members or union.....	⁴ 6	1,620	0	0	4	1,620	19	1,601
Protection continued.....	² 4	1,336	0	0	3	1,336	19	1,317
Protection discontinued.....	² 2	284	0	0	1	284	0	284
Unknown.....	4	558	0	0	4	558	23	535

¹ Seven plans did not supply membership information.

² One plan did not supply membership information.

³ Four plans did not supply membership information.

⁴ Two plans did not supply membership information.

⁵ Three plans did not supply membership information.

Source: Reports filed with Office of Labor-Management and Welfare-Pension Reports, Department of Labor.

members of 51 plans; they were not transferred to other plans and did not continue to accrue pension rights. The available data did not indicate whether retirement protection was continued for the 600 members of the six remaining plans.

Data from an Internal Revenue Service tabulation and from a study made by the New York State Banking Department also indicate that some members of terminated plans probably continued to have retirement protection. The reasons reported to the Internal Revenue Service for the termination of 99 plans during a 3-month period in 1957 suggest that the employees covered by about half the terminated plans probably continued to have retirement protection. The reasons for the termination of 97 plans whose funds were held in trust by banks in New York State during the period 1936-54 suggest that employees covered by one-fifth of the plans continued to have retirement protection.⁴

⁴ Joseph Krislov, *Termination of Private Pension Plans* (Analytical Note No. 109), Bureau of Old-Age and Survivors Insurance, Division of Program Analysis, May 1960.

Almost half (61) of the 137 terminated plans from the files of the Office of Labor-Management and Welfare-Pension Reports, with more than three-fifths of the membership (about 63,000), were terminated because of mergers between companies or mergers of pension plans within companies; retirement protection for members of these plans continued. Whether the successor plan gave full credit to the employees for past service under the terminated plan could not be determined from the available data.

Two studies of the effects of mergers on private plans suggest, however, that some of the members of the 61 plans may not have received full credit for their past service in the predecessor firm or plan. The first study, by James Hammond, was focused on the effect of mergers on private pension plans and the problems that result when the plans are merged. The author sent a questionnaire to 162 selected firms "which had merged and had private pension plans both before and after the merger"; he received 110 replies, but only 77 supplied usable information. The study concluded that "only about 20 percent of the firms respond-

ing to the questions of benefit formulae integration gave full credit to the acquired employees for past service with the predecessor firm.”⁵ The second study, a survey of how 35 firms resolved retirement benefit problems when they merged, also indicated that some extended only “partial credit” for services with a predecessor company.⁶

The reasons for terminating the remaining 76 plans filed in the Office of Labor-Management and Welfare-Pension Reports and the approximate number of members are shown below.

Reason for termination	Number of plans	Approximate membership of plans
Total.....	76	14,300
Sale of company.....	15	2,400
Company disbanded.....	10	500
Unilateral company action.....	41	9,200
Company action, approved by plan members or union.....	6	1,600
Unknown.....	4	600

Almost all these plans were terminated by the employer acting alone. The termination of six plans, however, was approved by the plan members or by the unions representing the members. As indicated in table 1, retirement protection was continued for the members (approximately 7,000) of 19 of the plans; the 51 plans discontinuing protection had all been terminated for reasons other than mergers.

DISPOSITION OF ASSETS

Data on the amount of assets were not available for 20 of the 51 terminated plans for whose membership the retirement protection was discontinued. Sixteen of the 20 plans (with approximately 1,900 members, at least 56 of whom were retired members) did not indicate what disposition had been made of their assets when they were terminated. Two plans (with an unknown membership) reported that their assets were distributed to the members when the plan was terminated, and two plans (with approximately 200

members) reported that their members received paid-up annuities.

Thirty-one plans (with a combined membership of 4,833, at least 65 of whom were retired) reported total assets of \$5,412,000 at the time of termination. Twenty-five of these plans (with a combined membership of 3,974, at least 63 of whom were retired) reported that assets of \$4,386,000 had been distributed to their members. One plan reported that its 284 members received paid-up annuities. The remaining five plans (with 331 members) reported total assets of \$510,000 but did not indicate what disposition had been made of their assets at the time of termination.⁷

Whether these assets were sufficient to meet the accrued liabilities of the plans cannot be determined from the available information. Data showing the assets per retired member and the assets per member (including retired members) can be derived. Such data are useful in judging if the terminated plans were able to meet their accrued liabilities at the time of termination but are not conclusive, since information is lacking on the amount of the pensions, the age distribution of retired workers, and other benefit characteristics of the plans.

The assets, the number of retired members, and the assets per retired member for the seven plans that reported on their retired members were as follows:

Total assets (in thousands)	Number of retired members	Assets per retired member
\$76.....	24	\$3,167
342.....	10	3,420
174.....	19	9,158
78.....	6	13,000
21.....	1	21,000
102.....	4	25,500
397.....	1	397,000

On the basis of these data, it can be concluded that most of the seven plans may have been able to meet their accrued obligations to retired members. More than half the retired members, however, were members of the two plans that had assets of only slightly more than \$3,000 per retired member.

The analysis has been limited to the assets per

⁷ Although the plan administrators did not supply the data on distribution of assets, some distribution was undoubtedly made in these plans.

⁵ James Hammond, *The Effect of Mergers on Private Pensions*, University of Pennsylvania, 1960, pages 3-4, 96 (unpublished doctoral dissertation).

⁶ Charles D. Spencer and Associates, Inc., *Employee Benefit Plan Review Research Reports (162-13)*, Chicago, December 1958.

retired member, and no consideration has been given to the pension expectations of the non-retired members. The 29 plans that reported their total membership and assets are distributed according to the amount of their assets per member (including retired members) in the following tabulation.

Assets per member	Number of plans
\$1-499.....	7
500-999.....	9
1,000-1,499.....	4
1,500-1,999.....	2
2,000-2,499.....	4
2,500 or more.....	3

These data suggest that some of the 29 plans—particularly those that had to meet obligations to retired members—may not have been able to meet their accrued obligations to those members who may have been eligible for retirement or who had a vested benefit. And if a plan had retired members as well as accrued obligations to some active members who were eligible for retirement or a vested benefit, it probably would not have sufficient assets available for distribution to the remaining members who had been accumulating service credits and were not yet eligible for benefits.

Recent Publications*

WELFARE ADMINISTRATION

BUREAU OF FAMILY SERVICES. *Pharmaceutical Services*. (Medical Care in Public Assistance: Guides and Recommended Standards.) Washington: U.S. Govt. Print. Off., 1963. 17 pp. Limited free distribution; apply to the Bureau of Family Services, Welfare Administration, Washington, D.C., 20201.

BUREAU OF FAMILY SERVICES and CHILDREN'S BUREAU. *Public Social Welfare Personnel, 1960*. Washington: U.S. Govt. Print. Off., 1962. 140 pp. 70 cents.

Information on the characteristics of social welfare personnel in public welfare agencies, based on a survey made in early 1960.

CHILDREN'S BUREAU. *Children, Problems, and Services in Child Welfare Programs*, by Helen R. Jeter. Wash-

* Prepared in the Library, Department of Health, Education, and Welfare. Orders for items listed should be directed to publishers and booksellers; Federal publications for which prices are listed should be ordered from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C., 20402.

ington: U.S. Govt. Print. Off., 1963. 291 pp. (CB Publication No. 403-1963.) \$1.

Study made in 1961 in cooperation with the Child Welfare League of America to determine the problems presented by children receiving services from public and voluntary agencies and the services provided by the agencies.

CHILDREN'S BUREAU. *Statistics on Public Institutions for Delinquent Children, 1962*, by Duplain R. Gant. (CB Statistical Series, No. 70.) Washington: U.S. Govt. Print. Off., 1963. 32 pp. Limited free distribution; apply to the Children's Bureau, Welfare Administration, Washington, D.C., 20201.

GENERAL

CHUTROO, LILLIAN. *Entitlement to Unemployment Insurance Benefits: A Report Prepared for the New York State Advisory Council on Employment and Unemployment Insurance*. New York: The Council, April 1963. 53 pp. State provisions governing entitlement to benefits.

GINZBERG, ELI, and BERMAN, HYMAN. *The American Worker in the Twentieth Century: A History Through Autobiographics*. New York: Free Press of Glencoe, 1963. 368 pp. \$8.50.

The life, work, and aspirations of the industrial wage earner in America, as described by the workers themselves.

GORDON, MARGARET S. "A Conference on Unemployment." *Industrial Relations*, vol. 2, May 1963, pp. 1-6. \$1.50.

HAUSER, PHILIP M., editor. *The Population Dilemma*. Englewood Cliffs, N. J.: Prentice-Hall, 1963. 188 pp. \$1.95.

HERTZ, FREDERICK. "What the World Owes to William Beveridge." *Contemporary Review*, June 1963, pp. 288-292. 5d.

Brief summary of Lord Beveridge's writings and work.

MCCOLLUM, JOHN. "Manpower Development and Training." *Health, Education, and Welfare Indicators*, August 1963, pp. v-xviii. 35 cents.

The background of the Manpower Development and Training Act and the problems and possibilities of the program.

MILLER, HERMAN P. *Trends in the Income of Families and Persons in the United States: 1947 to 1960*. Washington: U.S. Govt. Print. Off., 1963. 349 pp. (Bureau of the Census Technical Paper No. 8.) \$1.75.

"Public Employment Service in the Nation's Job Market, 1933-1963." *Employment Security Review*, vol. 30, June 1963, entire issue. 116 pp. 30 cents.

Articles commemorating the thirtieth anniversary of the U.S. Employment Service.

WILCOCK, RICHARD C., and FRANKE, WALTER H. *Unwanted Workers: Permanent Layoffs and Long-Term Unemployment*. New York: Free Press of Glencoe, 1963. 340 pp. \$6.95.

Economic and social characteristics of workers without jobs.

WOOTTON, BARBARA. "Is There a Welfare State? A Review of Recent Social Changes in Britain." *Political Science Quarterly*, vol. 78, June 1963, pp. 179-197. \$1.50.